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RICS Global Commercial Property Monitor

Q2 2014

Revival Underway in Spain and Portugal but Chinese Market Retreats

- **UAE and Japan continue to exhibit the strongest momentum, although the US begins to close the gap**
- **Recoveries becoming more firmly entrenched in Spanish, Portuguese and Irish markets**
- **China commercial property market deteriorates with the outlook turning marginally negative**

The Q2 2014 RICS Global Commercial Property Monitor results, when taken as a whole, highlight an improvement in overall commercial real estate sentiment. Nevertheless, conditions vary quite markedly across the globe. Consistent with the findings reported in each of the last four global monitors, the UAE and Japan remain at the forefront with respect to the upward momentum present in both the investment and occupier sides of the market. As such, the two nations register the highest readings for the Occupier Sentiment Index (OSI) and Investment Sentiment Index (ISI). Furthermore, continued strength in these markets looks likely, as evidenced by the RICS forward looking rent and capital value expectations series, which point to robust gains over the next twelve months.

Turning attention elsewhere, the US results show an improvement on an already solid picture with growth in tenant demand, supported by a strengthening labour market, exerting upward pressure on rents. Likewise, respondents to the survey continue to post strong underlying results within the New Zealand, German and UK markets, with the buoyant OSI and ISI figures indicative of high confidence levels.

The most noticeable (positive) turnaround in sentiment over the past 6-12 months has emerged from some of the euro area members which were severely effected by the 2008 financial crisis, namely Spain, Portugal and Ireland. For instance, demand for occupancy within Spain appears to be increasing at a faster rate than almost all nations for which RICS has data (Japan being the only exception). Furthermore, Portugal and Spain boast the most elevated investment transaction expectations. This revival is in keeping with the broader upturn in the economic newsflow, although the recent worries surrounding the banking sector in the former highlights the fragile nature of the recovery.

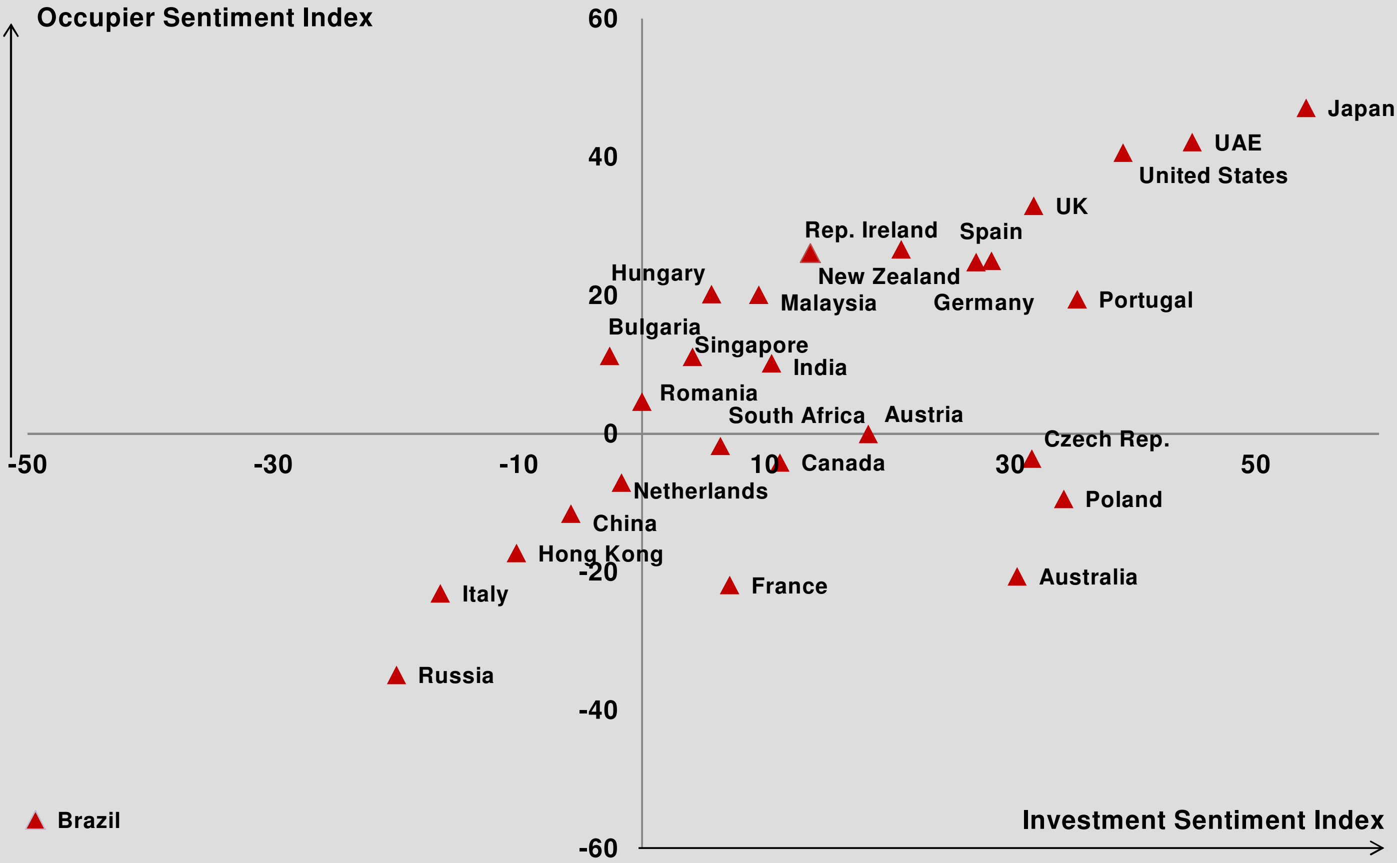
By way of contrast, the performance of other euro area states such as the Netherlands, Italy and France remains uninspired, with the outlook for occupier market activity generally flat. That said, the prospects for the investment side of these markets offer a little more encouragement. Over the next twelve months, capital values are projected to rise to a greater or lesser extent in all three countries.

Particularly noteworthy, is the slide in the commercial real estate indicators covering China, where both the OSI and ISI dropped into negative territory at –12 and –6 respectively (the first time this has occurred since the early stages of 2009). A material rise in space available for occupancy, coupled with a flat trend in tenant demand, equates to contributors now expecting to see a marginal decline in rents, both at the three and twelve month horizons. Moreover, this trend is mirrored in the investment market with investor appetite dwindling, leading to a modest fall in capital values now anticipated.

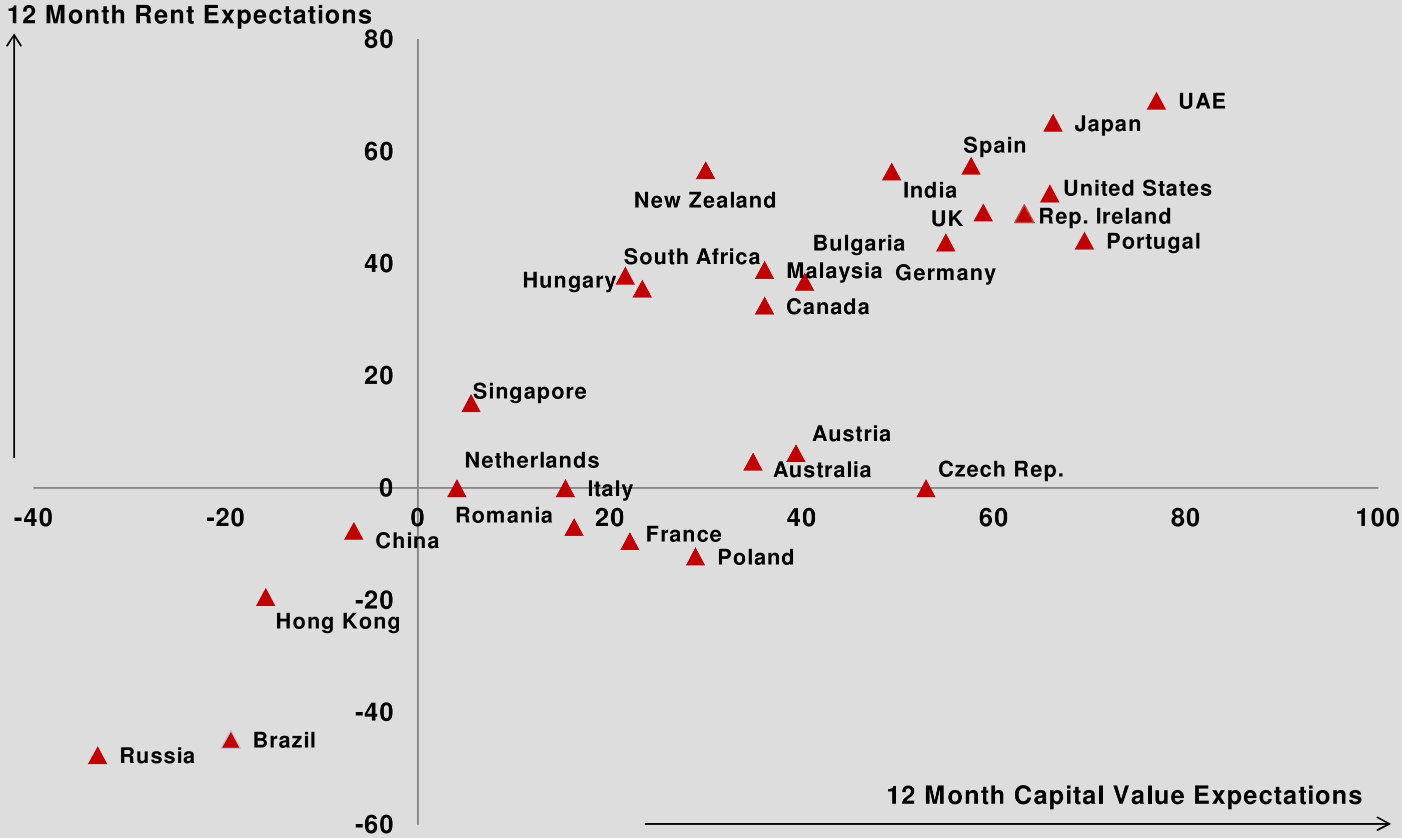
The Hong Kong figures again show a continuation of the downward trend established during 2013 with falling rents and capital values expected to persist. Meanwhile, results for Russia confirm that the decline in sentiment, captured during Q1, has been sustained with anecdotal evidence again citing geopolitical risks as the main protagonist. The OSI and ISI both point to a deterioration in sentiment which has also been reflected in capital flows. Some comfort may, however, be drawn from the relatively resilient economic data in the face of the sharp upward move in interest rates.

The feedback from Brazil for the second quarter was also very cautious, with a weaker tone in both the occupier and investment markets and little prospect of a material improvement in the near term, if the expectations data for rent and capital values is anything to go by.

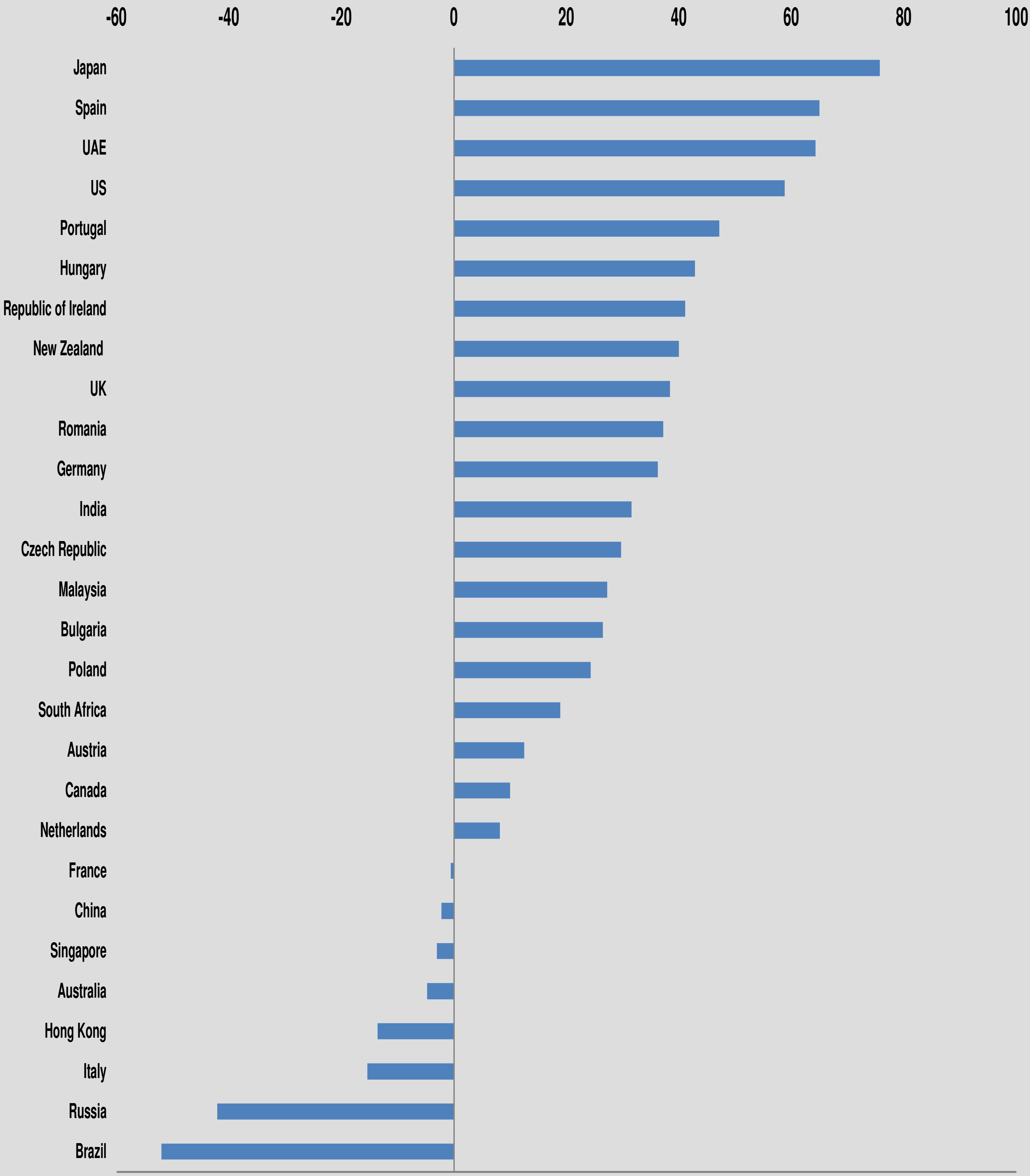
Occupier Sentiment Index and Investment Sentiment Index



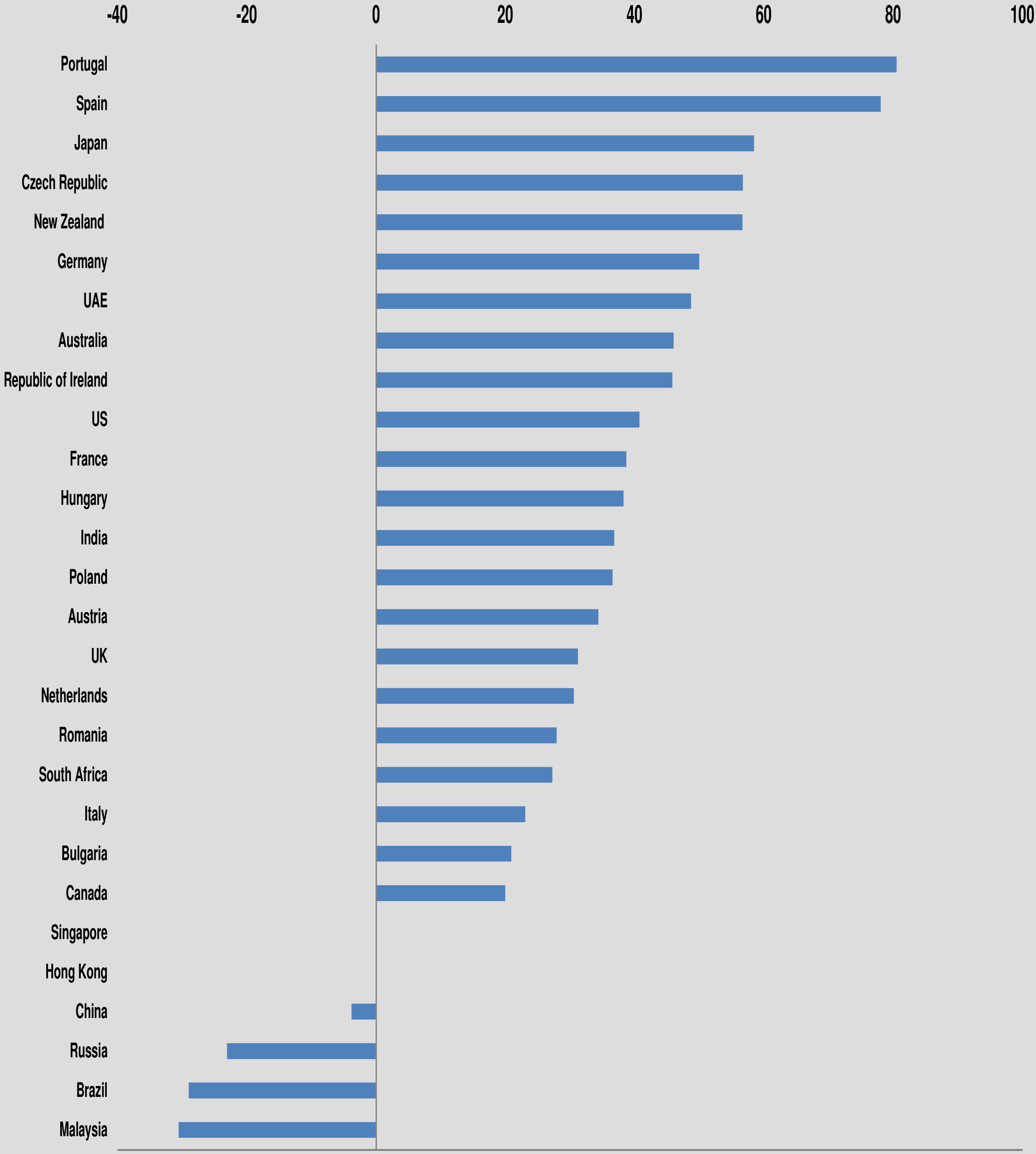
Twelve Month Rent and Capital Value Expectations (net balance %)



Tenant Demand — change with preceding quarter (net balance %)



Investment Transactions — expectations for next quarter (net balance %)



Information

RICS Global Commercial Property Monitor

RICS Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets.

The Global Commercial Property Monitor is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity, the farmland market and arts and antiques.

For access to city level agents' comments and contributor details please view the RICS economics website.

Methodology

Survey questionnaires were sent out on 16th June with responses received until 7th July. Respondents were asked to compare conditions over the latest three months with the previous three months. A total of 964 company responses were received, with 232 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

A positive net balance reading indicates an overall increase, a negative reading indicates an overall decline.

Contact details

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About RICS

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